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HOBSON'S THEORY OF DISTRIBUTION.

I.

THE recent appearance of Mr. Hobson among us, and his exceedingly keen examination of public and economic questions in various publications, together with the present status of thinking on the economics of labor and capital, seem to make this not an unfitting moment to discuss some of the essential points in his study[1] upon the industrial rewards of land, labor, and capital.

One is attracted at the outset by the pointed and clear exposition; and again and again is one led to admire the evident sincerity and love of truth displayed, and one is also led to enjoy the sound conclusions often established while he is engaged upon minor points. Especially convincing is his very brief treatment (p. 62) of the fallacy of the quantity theory of money, when examining the forces entering into price-changes. More important still are the force and insight shown when he questions the validity of the doctrine of final utility as a correct determinant of value. Indeed, this part of recent economic doctrine—recent in the sense that Jevons and the Austrians are recent—has had quite too much acceptance with too little thinking to be wholly comforting; and Mr. Hobson has been able to make heavy

[1] JOHN A. HOBSON, *The Economics of Distribution* (1900).

inroads upon what must now be regarded somewhat as a passing phase of belief. With Marshall, he has shown that both expenses of production and utility are as necessary to value as the two blades of the scissors to cutting. In fact, one is no longer required to believe, as some insist, that scarcity is properly accounted for under the concept of final utility.

Mr. Hobson, with others, has punctured the exaggerated importance attributed to consumer's rents. The attempt to show that a buyer has a subjective gain on each purchase measured by the difference between the market price of that article and what in some instances he might conceivably pay, up to the limit of his income, is clearly fallacious; and one is ready to believe that consumer's rents have been given the *coup de grace*.[2] More than that, one is forced to regard the buyer's utility as largely imaginary, varying with each person, and varying for the same person at different times. As subjective abstractions they cannot be quantitatively measured; and they should not be regarded as entering the economic sphere. Utility has its place as a part of an improved analysis of demand; and yet, no matter what the subjective utility of a good to any one person, his influence on its exchange value is wholly limited by a quantitative element — that is, by the extent of his purchasing power offered in support of his desires. The subjective valuation is only a partial factor in determining the action of the buyer. It is a question if consumer's rents have any real existence. In most cases, habit, or vaguely diffused information, probably lead the buyer to decide whether he is paying a high or a low price; and the real utility of an article of general use is very little in evidence. No matter what the utility to him of a hammer, for example, he gauges the idea of its value to him largely by a loose impression as to what he, or others, have been paying for hammers. That is, he is acting largely on the basis of ideas dependent, in ultimate analysis, on expenses of production. In fact, the expression "final utility," as used in the recent discussions of the theory of value, has a significant reference to quantity; but with many

[2] *Cf.* pp. 41–49. *Cf.* also NICHOLSON, *Principles of Political Economy*, Vol. I, pp. 57–65.

writers the influence of quantity has been minimized in the face of a joy in a new abstraction.

Producer's rents on the contrary, have a different economic character from consumer's rents. The receipt of a sum over and above that for which a producer was willing to sell an article is based on a definite line of comparison. In the main, the manufacturer has, in his expenses of production, a definite measure of what the article he sells is worth to him; if he gets more than that, by reason of possible fluctuations in the market, he obtains a tangible producer's rent. In Mr. Hobson's definitions, however, of the basis of measurement for a producer's rent as "the minimum profit required to induce the continued application of industrial power," there are some difficulties which must give us pause. How is this "minimum profit" to be found? "The net profits . . . . may be legitimately taken as the basis of measurement for a producer's rent," says Mr. Hobson. Although an excess above this minimum emerges on each separate sale,

> it cannot be rightly calculated on the separate rates, since the expenses of production of one article are organically related to those of other articles. The true producer's rent thus represents the money value of a differential economy of production, as compared with the economy of *the least effective producer* competing in the market, and is estimated upon the total business over a period of time. (P. 51.)

In this sense "net profit" must be the sum necessary to cover the expenses of production "of the portion of supply produced under the least favorable circumstances." The manufacturer who has a lower expense of production gains in that proportion a producer's rent. Such a philosophy assumes, of course, a gradation of industries all of which are necessary to the supply, and to the given price—the same basis on which F. A. Walker built his theory of manager's profits.

Perhaps Mr. Hobson is not so clear as that: in actual words, he says that the producer's rent is the excess over the "profit" of the marginal producer. What determines that "profit" we are not here given to know. But apart from that omission we are in a graver difficulty. The price actually received must—so far as continuous production is concerned—contain the amounts cover-

ing the payments to all the factors concerned in the production, including the manager. This manager's minimum payment is a necessary element in the expenses of production; but equally so are other payments, such as interest and wages. Why then should not the excess of price over the minimum interest, or the excess over the minimum wages, be regarded as the producer's rent? Why single out only one of several necessary factors as the basis of measurement? Of course, it might be replied that one should have in mind only the manager in talking about producer's rents; and that one is turning away from the problem if the items of wages and interest in expenses of production are introduced. But we must inevitably hark back to what it is which determines the minimum of wages, interest, and profits. Until we have some principles which govern these payments and fix their amounts, we cannot know whether there is a producer's rent, or not. If, however, we were told that a producer's rent was measured by the excess over all the minimum expenses of production, and that this excess accrues to the manager, we are thus tied up to a theory which makes the manager the residual claimant. If so, we are carried away from the position suggested above by Mr. Hobson, which was in accord with that of Mr. Walker. But this inconsistency will not permit us to give up the idea of a producer's rent. There can be no doubt of the existence of a producer's rent, which is tangible as contrasted with the speculative, subjective abstraction conveyed by the term "consumer's rent." The one is capable of quantitative statement, the other is not.

Since Mr. Hobson himself has not allowed the validity of consumer's rents, one wonders that he should continue to use them in his subsequent reasoning. He goes on to lay a foundation for his treatment of distribution by examining the nature of a market. He finds that, if one of the parties to buying and selling possess superior skill in bargaining, or has exceptional information, that one obtains "a forced gain." The market price, therefore, contains an element, greater or less, of "forced gain." It should be noticed, however, that the author s assumption as to "forced rents" depends upon the accuracy of his proof

that there are *definite limits* fixed by a marginal pair of buyers and sellers. "Competition of buyers on the one hand, and sellers on the other hand, has thus fixed rigid limits for a market price" (p. 14). If, then, consumer's rents are chiefly mythical, or at least intangible and incapable of quantitative statement, because the basis of measurement is a mere sentiment, it is unsafe to set much store by "rigid limits" on the part of the buyer. Marginal utility as a means of fixing a "rigid limit" to price is a good deal of an irridescent dream. The subjective valuation of any one person who is weighing the disutility of producing (as expressed in expenses of production) as against the utility to him of the purchased article, varies constantly from time to time, and according to changing circumstances. Even in local markets subjective valuations have no fixity. Moreover, apart from questions of time these valuations are notoriously based on the vaguest ideas, on chance information, on habit, and are incapable of accurate, quantitative statement. The R man in Mr. Hobson's illustration —"the person who imputes the highest utility"—is that purely mythical person who sometimes appears in economic dialectics, but who has no real existence. As well lean your house-wall for support against a cumulus cloud as to count "forced rents" from the rigid limit of a buyer's subjective utility.

The point of Mr. Hobson's basic exposition is that there is a zone, marked out by the buyer's and seller's rigid limits on either side, within which competition has no effect on market price. "Forced rents" enter into price because competition has no power within this zone.[3] And yet, if one is disinclined to accept the validity of the rigid limits to this zone, one must forego the pleasure of acepting the theory of forced rents, and must find some other interpretation of the familiar difference between the operation of competition in provincial and in wholesale markets. One is, therefore, inclined to agree with Mr. Hobson himself when he closes his discussion of producer's and consumer's rents with the suggestive admission (p. 54) that

[3] "Competition does not fix a price, but only the approaches to a price" (p. 19).

the group of transactions taken to constitute a market at a given place and time has had ascribed to it an independence which is unreal, with the result that a false definiteness appears in the gains which the different parties are assumed to make from the transaction.[4]

II.

In approaching the central problem of distribution — the principles regulating the prices paid for land, labor, and capital — Mr. Hobson applies the conclusions gained from the examination of market price, as has just been discussed:

> I propose to bring the sale of the factors of production under the general laws of value and of price as disclosed by the investigation of bargaining for commodities.
>
> For this purpose it is necessary (1) to co-ordinate the three factors with respect to the conditions which regulate their price; (2) to show that their sales are in essence identical, as economic processes, with the sale of commodities. (P. 117.)

The author wishes to prove that there are no separate laws regulating the rewards to labor, capital, and land; but that there is a principle common to all. He sets out to bring the factors of production into some common likeness; but it is a question whether truth and accuracy are not sacrificed to this *a priori* method of forcing things which are fundamentally unlike into a form where they bear only a specious likeness. Not only do land and labor differ in their origin and qualities from commodities offered in the market; but land, capital, and labor differ from each other in respects which are so vital that to ignore these differences is to ignore some of the essential difficulties of the problem of distribution.

[4] In defining "normal price" as a synonym of our average of market prices, Mr. Hobson leads the reader astray. In truth, normal price cannot be reached, except by an accidental coincidence, through averages. Under free competition it is a price which accurately conforms to expenses of production. Moreover, normal value may exist even if there is no such thing as normal price; because the price at any one moment, covering the actual expenses of production, may not actually represent normal costs. But that is normal price which at any time exactly covers the expenses of production, however the payments may vary from costs to the several factors.

If, however, the author designedly chooses to use average price as a synonym of normal price, he introduces some confusion by giving normal price a meaning quite different from that usually assigned to it.

Mr. Hobson first concerns himself with land, in order to show that there should be no separate treatment of that factor. He examines the Ricardian doctrine of rent of land, particularly in regard to the claim that it does not enter into the price of agricultural products. It is urged that the extensive margin of cultivation, going from better to worse land, is not necessarily a no-rent margin. Of course, if all land were contributing to the supply of but a single article, and if not all land were required to furnish that supply, there might be a no-rent margin of cultivation. But, the author insists, most land has several alternative uses, being suited for growing more than one article. For instance, the worst wheat land in use may be better for grazing than the worst grazing land in use; therefore, in order to obtain this land for wheat-growing, a sum must be paid (called a "specific," or "forced" rent) greater than the differential rent which that land could obtain for grazing purposes. This "forced rent" enters into the expenses of producing wheat on the extensive margin. The differential rents of superior wheat lands, accordingly, will be measured, not from a no-rent margin, but from a minimum specific rent. The same reasoning would apply to market-garden land as compared with wheat land, or to building sites as compared with market gardens.

It should be noticed by the reader here that this exposition in no way assails the usual formula of the Ricardian theory that rent does not enter into price. In that theory it was meant that differential rents do not enter into price; and Mr. Hobson does not contest that point. The new issue raised is that rent does enter into price; but by rent is here meant a "forced" rent, not a differential rent.

To support this contention it is urged that most lands have alternative uses such as were typified by wheat and grazing lands; that not merely the marginal lands, but the superior lands, have alternative uses. Hence, a piece of land which may be paying a differential rent may also, because of a demand for it for some other use, be paying a "forced" rent, sufficient to keep it in the series of lands used for a certain product. As a result of this analysis, Mr. Hobson holds that the price of land whose product

is essential to the supply, and which consequently is the direct determinant of price on the supply side, is not necessarily the worst land in use (the margin of cultivation), but any one of the various grades of superior land which has an alternative use. Instead of the margin being on the worst land, it may be on some superior land. In furtherance of this theory, Mr. Hobson claims that what is sold by a landlord to a tenant is "units of land power," not certain areas of land; that, relatively to good land, poor land contains merely a smaller number of units of land power. A certain number *in toto* of these units are necessary to the supply of any given commodity, such as wheat, and the withdrawal of any piece of land, be it superior or inferior, from cultivation contracts the supply and directly affects price. On that particular piece of land for which the strongest demand exists for an alternative use the price per unit of land power is determined; and thereby the price of any other piece, according to the units it furnishes, be it the worst or best land, is fixed. Hence the land at the extensive margin of cultivation may have its rental fixed for it by the conditions existing on a superior grade of land.

> It is to the strongest bargainer that we must look for the direct and final determination of a price, and the differential gain of the others should rightly be measured from him. It is only the conventional modes of selling and regarding the sales of the uses of factors of production that oblige us to depart from this rule, and in the case of land makes it convenient to measure differential rents from the worst land in cultivation which contributes to the market. (P. 126.)

Mr. Hobson thus admits that differential rents are measured in fact from the extensive margin of cultivation; but, if I understand him, he holds that the determining increment of supply is not necessarily that of the extensive margin:

> In land, we must recognize that rent or price of land-use is determined just like the price of commodities, by the relative strength of buyers and sellers bargaining for a given quantity of land-use, and not for a given-sized piece of land, though the language of these proceedings has reference to the latter. The subjective valuations of a single owner and a single tenant (the final pair) fix the limits for the price of a unit of this land-power, the stronger of the two fixing the price-point. *This done the rent per acre is determined by the net yield of land-power in each grade of land.* If the

higgling of the market fixes the price of a unit at 20*s.*, the best land available for that supply may yield two units of power per acre, in which case the rent per acre is 40*s.*; the worst land only half a unit with a rent of 10*s.* per acre. . . . . If the slackness of demand for wheat land causes a fall of rent, it is not necessarily the 20*s.* land which passes out of cultivation; it may be the 30*s.*, if the latter has an alternative remunerative use and the former has not. . . . . The price per unit of land-use is always determined by the common position of one part of supply, which at that price is just induced to contribute toward that supply in preference to some others. (Pp. 126–128.)

Mr. Hobson, then, names the single owner whose decision includes, or excludes, the determining increment of supply as "the determining owner;" but he also retains the name of "marginal land" for the worst land in cultivation for a particular supply. "Differential rents" (p. 129) are those "obtained by lands of superior productivity contributing to this supply, and will be measured from the margin."[5]

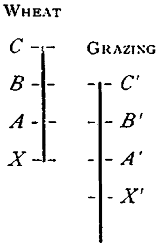
Apart from differential rents, which were those Ricardo had in mind when it was said that rents did not enter into price, Mr. Hobson presents two other kinds (p. 130). If a piece of land in wheat rented for 30*s.*, has an alternative use, that use might yield only 25*s.*; but because of the scarcity of land for wheat culture the owner may be able to get 30*s.* In such a case it is claimed that the owner, as final seller, obtains a "forced gain" of 5*s.* Thus, land which, for instance, paid 40*s.* rent, would really pay this sum in three forms of rent, according to our author: (1) the marginal rent of 25*s.* based on the alternative use; (2) 5*s.* as forced rent, based on superior bargaining, and (3) 15*s.* as a differential rent measured by its superiority over the land at the margin of employment for this use. These three forms of rent, apart from difficulties in arithmetic, seem largely abstractions. The differential rent is not, as was formerly admitted[6] by Mr.

[5] What Mr. Hobson really means by the following statement is quite beyond my powers of mind to understand: "But though the differential rents thus calculated, not from the subjective valuation of the 'final pair' of bargainers, but from the margin of cultivation, *are not equivalent in amount to the 'differential gains' reckoned according to our market for sale of ordinary commodities*, their economic nature is not essentially different, for they are determined in the same way." (P. 126.)

[6] *Cf. supra*, and p. 126.

Hobson, measured from the worst land in cultivation, but from the land having an alternative use. Possibly, however, one may not have been able to understand the author's computations.

The outcome of this whole discussion of the extensive margin seems to be that no objection is made by Mr. Hobson to the statement that differential rents do not enter into price; and this is all that was implied in the Ricardian formulas; but it is urged that "positive marginal rents" will be included in market prices (p. 131). On this last point it is not certain that Mr. Hobson is convincing. The case may be stated as follows:



X = poorest land in use for wheat, and yields *in toto* \$10, or sufficient to cover the expenses of production of the given number of bushels raised on that grade of land, taking into account the price of wheat.

A = next best grade, yielding in all \$20, and paying \$10 rent.

X^1 = poorest land in use for grazing, yielding *in toto*, say, \$5, or sufficient to cover the expenses of growing a certain quantity of hay, or pasture, at the market price of those goods or services.

A^1 = next best quality of grazing land, yielding in all \$10, and paying \$5 rent as compared with X^1. It is supposed, also, that A^1 could yield \$10 if planted in wheat.

Mr. Hobson seems to claim that if A^1, which yields a rent of \$5 for grazing, is used to grow wheat, it will be introduced into the series of wheat lands only on condition that the \$5 rent enters as an increase in the expenses of production of wheat on the marginal wheat land. To me, this seems to be an error, arising from a confusion between the total (or gross) yield of the land and the rent (or the excess of the yield of a better over the poorest grade of land in cultivation). It is true that A^1 pays a rent of \$5, but wholly because of its relative capacity for grazing uses, and as contrasted with X^1, which lies at a different level from X, because this marginal land is fixed at X^1 solely as a result of prices for grazing services, and not at all as a result of the prices of wheat. A^1 pays a rent relatively to X^1, because of the demand and supply for grazing lands which fixes a price sufficient to give a gross yield of \$10 to A^1, if X^1 yields \$5 (but no rent).

When the question arises whether A^1 should be injected into the series of wheat lands, everything depends upon its natural fitness for growing wheat, and not at all upon its natural or rela-

tive fitness for grazing uses. If, at the existing prices of wheat, fixed by demand and supply, and taking into account the number of bushels of wheat which it can produce, A^1 can yield \$10, then it can be used indifferently for wheat, or for grazing purposes. Looked at from the wheat series, it stands in exactly the same position as *X;* and the payment of \$5 rent, when used for grazing, has nothing whatever to do with its rank as wheat land, nor does it in the slightest degree affect the marginal expenses of producing wheat. If \$5 were exacted for A^1 as the condition of becoming wheat land, then in wheat the farmer would get far less than the ordinary expenses of production, and A^1 would be ruled out. Obviously, to take another case, if A^1 would yield a total income of \$16 in wheat, then when it was transferred to the wheat series, it would pay \$6 rent; but the fact that it had paid \$5 in rent for an entirely different product, grazing has no bearing whatever on its gradation for wheat culture, nor could it have any influence whatever on the expenses of producing wheat on the wheat margin. It is not the rent of A^1 for grazing land which is decisive, but the total income from *A* when used either for grazing or wheat. If this total were only \$11 for wheat, then it would pay \$1 rent in the wheat series; if it were only \$10, it would just cover expenses of production. To the farmer it is a matter of indifference whether it is used for grazing or for wheat. To the landlord no inducement is offered until he knows that the total income of A^1 in wheat is, say, \$16, thus yielding more rent than the same land in a grazing series. But the fact that A^1 is hereafter used for wheat, because it pays more rent in wheat than in grazing, does not alter the conditions by which *X* remains the marginal land. These are determined irrespectively of those affecting X^1 in the grazing series. The error of Mr. Hobson, in my opinion, exists in carrying over into the series of wheat lands what is true only of the series of grazing lands. It really makes no difference how or why land comes to be introduced into the series, but once there it is judged solely by its fitness to meet the conditions of wheat-growing. The same reasoning, in general, would apply to B^1, or to any piece of superior land, even that employed for building purposes, which has an alternative use.

Whatever it may pay in one use, as a gross sum, is based on entirely different computations, different prices, different bases of measurement, from the sum it may hope to earn in another use. It is only in gross receipts that the farmer, or owner, has any means of deciding whether the land shall pass from one use to another; and rent obtained in one use does not become an element in the computation of expenses of production in another use.

But if we were to grant the truth of Mr. Hobson's theorem that, if the price per unit of land use is determined by the common position of one part of the supply which, at that price, is induced to contribute to the supply as against some alternative use, then, since nearly every piece of land has an alternative use of some kind, there would be many and varying "determining portions of supply," and therefore many price determinants. Therefore, no one piece of land determines price. On reflection, however, one must admit that the coming or going of land, whether of high or low fertility, in or out of a series for the cultivation of a given product has an effect only on the supply of that product, and, through the change in supply, an effect on its price. If, for example, the price of wheat were to rise by the withdrawal of some land, the price has risen by a limitation of the supply, and that would enable any one unit of land power — to use Mr. Hobson's phrase — to yield a larger money income; but that is the same thing as saying that poorer units of land power, which also means poorer grades of land, would be taken into cultivation to provide the required supply. From this operation there emerges the old truth that, after all, it is the price of wheat which regulates the price of a unit of land power, and not, as Mr. Hobson would have it, that the price of a unit of land power (fixed by bargaining for an alternative use) determines the price of wheat.

In his effort to force land into a treatment similar to that about to be given to labor and capital, based on his conclusions about market prices, Mr. Hobson has to this point discussed only the extensive margin of cultivation. To complete his work, he must dispose also of the intensive margin of cultivation; and he

now sets to work to prove the fallacy of the reasoning, as stated by Marshall and others, connected with the so-called "dosing system."

It is his belief that reasoning based on applying "doses" of labor and capital to land leads to a *reductio ad absurdum* (pp. 133–37). To argue that the return from the last dose of labor and capital which determines price and is just sufficient to pay wages and interest, leaving nothing for rent of land—thus proving that rent does not enter into price—is, in Mr. Hobson's mind, to assume that a part of the product is assignable to some separate factor, or factors, and not to all the factors in proper combination. He attacks the "dosing system" of argument because it ignores the organic relation of the factors of production (p. 142); and he is able to make a showing by introducing his own conception of such a similarity in the factors of production that, due to their interchangeability, there can be formulated a Law of Substitution.

Throughout this treatment of the "dosing" argument, there is, to my mind, a very evident error. In the wish to arrive at similarity in the three essential factors, he overlooks the unmistakable characteristics of land which separates it in kind from labor or capital. It appears when he tries to show the *reductio ad absurdum:* if the "dosing" argument permits the application of labor and capital as distinct from the land on which it works, he holds that one could with equal logic speak of applying "doses" of labor to capital, or of capital to labor.[7] All this he rejects, because he holds that production is best carried on by a certain harmonious combination of all three of the factors. In short, he denies any special quality in land which allows it to be separated in its productive results from labor and capital. To my mind, he is obliged to deny the Law of Diminishing Returns

[7] In his method of showing that, according to the "dosing" argument, wages also did not enter into price (p. 134), he drops into error. His hypothetical reasoning is false: a last dose of labor is not acting by itself, but unquestionably in connection with capital; hence the product could not be assumed to be the result merely of labor, but of labor and capital combined.

from land. He does not reach this conclusion in so many words,[8] but his argument goes straight to that end:

> The fallacy of the "dosing" illustration consists in assigning a particular amount of productivity, and therefore of "product," to a particular dose. (P. 144.)
>
> Where it is essential to productivity that land, capital, and labor shall all co-operate, it is impossible to assign to anyone of them a product based on the supposition of a separate productivity. Similarly, where there exists a necessary organic quantitative relation between the factors, no separate product can be put down to any single dose of each. (P. 147.)

There is no doubt about this general truth, and he might properly impugn the methods of Professor J. B. Clark on this basis; but there is no question whatever that one factor, like land, assists in the product in a way quite different from that of labor and capital. Without going into the question of the concept of capital, I here assume it to be distinct from natural agents. In agriculture, land has the power to cause seeds to germinate, of giving sustenance to plant life, and the like. Chemical, or other, substances in the soil are united by nature in certain products by a process of sun, air, and moisture which cannot be accomplished by other factors of production. Labor and capital, in fact, can act only in a subsidiary way in this operation. Adding labor in increasing quantities to land, thus germinating products, makes no change whatever in the fundamental power inherent in the soil. The labor is merely helpful in cultivation by breaking the soil, by keeping down weeds, by preventing the soil from caking, and the like, so that the inherent capacity of the soil may work without opposition. Beyond this point, additional labor is as much wasted as wine poured on a bottle already full; up to this point labor can be added with gain. Also, the use of capital in ditching, draining, in providing fertilizers, machinery, and the like, assists the soil to exert its inherent qualities to a larger extent; but in no sense could it be said that either labor or capital might be substituted for this elementary power of the soil to create products. For a certain thing land is the only factor which can do the needful service; and beyond the auxiliary support to a natural

[8] And yet, in his discussion of capital (pp. 196–98), he evidently speaks as if the Law of Diminishing Returns were a reality.

force capital, even at its best, cannot go. It can give this natural force more play, but it can never be a substitute for it. Beyond some minor adjustments between the various factors interchangeability may take place in the imagination, but not in real life.

This primary quality of land above described is the characteristic which differentiates it from labor and capital, even when all three are conjoined in production; and it is the solid reason why economists have evolved, on the basis of it, the Law of Diminishing Returns. That is, it has been accepted as a law that additions of labor and capital to any given piece of land will not increase the joint product indefinitely; that, sooner or later, it will be found that the inherent power of the soil cannot be pushed farther or made to bring forth more produce. The limitation to the product is not in the nature of labor or capital, but in the very nature of the soil. In a very true sense, then, we are warranted in treating land as different from labor and capital; and because labor and capital are not limited in quantity as land is — and under monopolistic conditions — we can properly speak of applying capital and labor to land, while it would be absurd to speak of applying land or capital to labor. Moreover, there can be a "dose" of labor and capital combined as applied to land; and in the "dosing" illustration that is what is generally meant by a "dose." Whenever labor alone is spoken of as a "dose," and some capital is in use, even by an earlier application, it would clearly be impossible to assign any increase of product as due directly to that labor.

III.

The final purpose of Mr. Hobson's reasoning, suggesting an *a priori* method, is clearly outlined in his declaration about rent:

> Now it is evident that no common law of price or value can be applied to the use of the three factors, unless we place them upon a common footing. (P. 151.)

In order to provide a single principle of distribution, it now remains to be seen whether he can squeeze capital and labor into a forced similarity with land and with each other. Since he claims to have disposed of a margin of cultivation for the single factor land, he substitutes therefor a joint or

composite margin of employment of land, capital, and labor, at which is paid not necessarily the minimum rent, interest, and wage, but the lowest average combination of the three. Supply price will be composed (under absolutely free competition) of these marginal expenses. (P. 159.)

He is ingenious, if not convincing, in stating the points in common between land and capital. While he admits that a positive rate of interest is necessary to bring new capital into existence, he believes that such a rate is not necessary to the maintenance of such capital. All that is necessary to keep capital alive is a depreciation fund, a deduction which is usually made before the rate of interest is reached.[9] Also, it is urged that there is a cost of producing land, corresponding to the cost of producing capital. In the worst land and capital in use there is required a depreciation fund, while the interest and rent paid for their use is apparent, but merely nominal in amount. Here we have an echo of the existence of forced rent in expenses of production; and his suggestion that capital needs no interest to induce its employment hardly fits with the accepted practice of the business world. When he thinks that unbroken prairie land has no value unless labor is spent upon it, he seems to be ignorant of every-day facts in the marketing of such lands in our western and southwestern regions. On such a premise it is unsafe to found a concept of cost of producing land. Again, he has discovered that this wear and tear fund exists in the case of labor; that within the term "wages" is included a payment for keeping labor-power in existence. It is defined as "the expenditure necessary to replace the labor-power given out in a day's work, and to maintain the laboring population at their present numbers and at their present efficiency" (pp. 155, 156). The general inference from these propositions is that differential payments for land, capital, and labor above the no-rent land, the no-interest business, and the depreciation fund of labor

[9] A curious *non sequitur* occurs in his reference to Walker at this point: "This Walker has rightly recognized by insisting that the idea of no-rent land must be extended to no-profit businesses, and that the profits of better businesses may be measured from this margin, as the rents of land are measured from a no-rent margin" (p. 154). Mr. Hobson has been talking about interest upon capital, while Walker referred to a wholly different thing, the wages of the manager. Mr. Hobson had in mind solely that a rate of interest was not needed to maintain old forms of capital.

do not enter into the price of commodities. By such reasoning he reaches his conclusion that price contains a minimum payment for land, capital, and labor arrived at (because of their interchangeability) by getting the lowest average of the three. Herein does he find the likeness of a market price for land, labor and capital to the market price of commodities; and, if he completes his process, he will apply the principles of bargaining in a market for goods to the fixation of rent, interest, and wages.[10]

IV.

The readjustment of conceptions as to land was necessary to permit the placing of labor within similar classifications; and next, labor is, of necessity, to be remodeled in order to make it fit with land in the new system.

Mr. Hobson is well warranted in finding some monopoly conditions affecting the prices of labor, because the unmistakable stratification of laborers according to skill, or efficiency, due to natural or educational advantages, cuts one group of laborers off from competition with others. On this general basis, the author establishes a gradation of labor similar to that of land. In the lowest strata of labor, corresponding to the worst grazing land, he finds unskilled workmen earning the minimum wages which cover only a bare physical maintenance. At this point he constructs a theory of a wear-and-tear fund for labor, like that for capital and supposedly like that rather feebly suggested for land. But mere subsistence wages would not provide for infancy and old age; hence something additional must be added to wages to keep up the population. Thus if 15*s.* were the wear-and-tear fund, then perhaps 3*s.* more, making 18*s.* would form the marginal wages of labor from which higher ranks should be graded. Moreover, the determining supply of labor may be of a superior grade,

[10] And yet in applying conclusions gained by studying the market for goods to the market for land, labor, and capital we must recall that these things are in different categories. It is not quite clear how Mr. Hobson holds on this matter when he says: "Now it is important to observe that these differential rents are in no sense equivalent to the differential gains which arose in a market of goods. The latter represent the different valuations put by different buyers and sellers upon *similar* objective quantities, the former represent valuations of *different* objective quantities." (P. 116.)

as in the case of land; because what is sold is not labor-time, but units of labor-power (pp. 166–68). The possibility of an alternative use for labor is introduced after the analogy of the treatment of land; so that the price obtained by a superior laborer for certain units of labor-power fixes the rate paid to an inferior laborer, who has a less number of units to sell.

Then, the conclusion is reached that the minimum subsistence fund, say 15*s.*, just as the maintenance fund for capital and land, enters into the price of the product on which the poorest laborer is engaged. Beyond this 15*s.*, payments for wages do not enter into price. In addition, the minimum rate of wages in a higher stratum includes a marginal rent equal to the excess over the wear-and-tear fund in the stratum below; and this marginal rent enters into the price of goods made by the laborers of that higher stratum. In each stratum the wages obtained beyond the marginal payment will not enter into price, inasmuch as they are differential rewards.

It should not be necessary again to treat in detail the unsatisfactory reasoning of Mr. Hobson tending to show that a marginal rent of land enters into price. In regard to labor it is assumed without argument by him that the wear-and-tear, or subsistence, fund of 15*s* all appears in expenses of production, and thus enters into price; and the price referred to is that of the product, *X*, made by the poorest laborer. If a mason belongs in the next higher stratum, and receives wages of 30*s.*, of which 15*s.*, or the excess over the subsistence fund, is rent of efficiency, and if 30*s.* is the minimum of wages in that stratum which includes masons, then all the 30*s.* enters into the price of a mason's products, *Y*; and rents of more highly paid laborers in that stratum are measured from the 30*s.* margin. The product, *Y*, is a different one from *X*. Now, is it possible that the wages paid in producing *X* directly affect the price of the commodity *Y*, an entirely different commodity? I think not; and for the reason that there is no way of comparing the relative efficiency of the workmen when they are engaged on different goods, in different operations. It is the same difficulty we found in believing that the rent of grazing land could enter into the price of wheat. More-

over, the analogy fails entirely: in land, it was only the rent, or the excess over the expenses of production, not the expenses of production, on the grazing land, which was supposed to enter into the price of wheat; but, in this treatment of labor, that which enters into the price of *Y* is all of the 30*s.*, or a sum which includes not only the subsistence fund of 15*s.*, but also the excess of the earnings of the poorest mason over those of the poorest unskilled laborer. Thus there seems to be no analogy whatever; and the reasoning must stand alone.

The difficulty is to see in Mr. Hobson's argument how, in one instance, only the subsistence fund enters into price, and yet, in another instance, a rent for efficiency is included in price. There is certainly in the stratification of labor so much that requires explanation by the principles of rent that it was unnecessary to introduce this forced or marginal rent as a part of price. It is clear that higher wages are paid because of greater efficiency, and there may be a legitimate rent of efficiency for labor; but Mr. Hobson does not throw much light on the real question as to why skill is given a superior reward. Is it because of productivity, or because of scarcity, or because of both? Scarcity must be taken into account. How would it be if wages of unskilled men were raised arbitrarily, beyond the subsistence fund, without any additional skill being shown? In such a case the higher wages, as all practical men must admit, would certainly enter into price; and yet, according to Mr. Hobson's thesis, all the excess over the subsistence fund (plus the amount needed to keep up the supply of labor) would not enter into price. In fact, the demand for and supply of labor in any stratum is one thing, and the demand for and supply of a commodity is another thing. Both must be taken into account in a way which is consistent with the facts of industry.[11] And the implication that there is a mar-

[11] In Mr. Hobson's argument, as I understand it, the rent of grazing land enters into the price of wheat; but, as I tried to show, the price of wheat was really determined by the demand and supply of wheat, thereby fixing the grade of land-power which could be used with profit. Analagously, according to Mr. Hobson, rent of labor enters into the price of products produced by superior labor. In truth, the demand for and supply of a certain grade of labor has a direct effect on its price; and if the wages of this kind were increased, without change in the skill of that labor, the price of the commodity must be increased, whether rent of efficiency existed or not.

ginal laborer necessary to the supply is not sufficiently borne out by the exposition.

V.

Finally, Mr. Hobson tries to bring the sale of capital under the general laws disclosed by the investigation of bargaining for commodities. To do this, he must show that the conditions regulating the rate paid for capital are the same as for land and labor, and then prove that the sales of capital are identical, as economic processes, with the sales of commodities. This is the most difficult part of the problem; capital has always proved to be recalcitrant material in building up a symmetrical system of economics. In fact, after explaining that capital cannot earn interest of itself, the author discloses his *a priori* method by saying: "Though in practice it is extremely difficult, perhaps impossible, to sever this interest, or pure payment for use of capital, from other elements, an orderly scheme of economic theory requires us to do so"! (p. 171). In order to make capital fit into the scheme arranged for it, capital must be graded, after the fashion of land and labor, into noncompeting groups with differential gains within each group.

The attempt to form capital into grades is based on the test of earnings, or according to the amount of interest it can obtain. Different grades of capital exist for the following causes: (1) advantages of connection, or position which enable men to obtain highly remunerative investments; (2) national or local privileges, such as charters; (3) patents; (4) tariffs; and (5) the size of capitals required in certain industries, where the Law of Increasing Returns holds, prevents competition. Some capital thus possesses a limited monopoly and gains a specific marginal interest (p. 182). The inference is that capital can be graded on the same scientific basis as is land just as some lands are more productive than others by nature. In truth, however, according to Mr. Hobson, capitals vary in their income for various external conditions.

The argument does not, to my mind, hang together logically. First it is emphasized that capital cannot earn interest of itself;

and yet capital is graded for causes affecting the earnings on capital itself. In fact, many of these so-called causes are elements largely affecting the personal quality of the managers of capital. But, while mentioning the Law of Increasing Returns as a consequence of large production, and one of the causes giving capital specific returns, he proceeds to make this law the very basis itself of the gradation of capital:

> The Law of Increasing Returns forms the basis of economic grading of capital, just as the Law of Diminishing Returns forms the basis of grading in land values. According to the varying pressure of this law in different industries, the capital engaged therein enjoys a greater or less degree of monopoly power, and draws a greater or less specific interest, in addition to the minimum interest socially required to induce the "saving" of capital. (P. 182.)

Here, although capital cannot earn interest of itself, the increasing returns of a whole industry requiring the aid of labor, land, and business management, as well as capital, is ascribed to the peculiarities of the one factor, capital. Nowhere is any evidence produced to substantiate such an extreme conclusion. When speaking of the Law of Increasing Returns, one has a right to ask, Returns from what? It is possible that an industry may yield increasing gains, but on what grounds can that whole increase be attributed to capital alone?

Nor do our vexing inquiries end here. Industries, having an upward lift of returns ascribed to the services of capital, seem to disclose an action in capital which is strangely absent when capital appears in industries having a different tendency. In industries having a diminishing return, on the other hand, the downward tendency is not attributed to capital; but what is true of capital in general ought to be true of it in industries of different kinds. In industries affected by the Law of Diminishing Returns, why is capital so reluctant to show its real character? It is needed in the latter as well as in the former industries; but by some economic legerdemain it is fish in one, and fowl in the other. Perhaps we may conclude it is not "good red herring" in either form of this argument. Certainly the attempt to grade capital, "just as pieces of land may be graded, according to their capacity of contributing to various supplies," does not seem fully satis-

factory. One is rather inclined to agree with the author, in another connection, when he says:

> Where it is essential to productivity that land, capital, and labor shall all co-operate, it is impossible to assign to any one of them a product based on the supposition of a separate productivity. (P. 147).

It is, perhaps, unnecessary to follow Mr. Hobson's further adjustment of the sale of capital to the conditions obtained in the bargaining for commodities (chap. vi) since the inadequacy of the basis for grading capital seems to prevent conviction as to the later development of his system. The subsequent forcing of capital into a semblance of land (see especially pp. 194, 195) is quite removed from the actual facts of the business world.

In conclusion, the proposed reformation of the concepts of land, labor, and capital in order to obtain a common principle of distribution can not be accepted on the reasoning as given. The *a priori* method is too much in evidence, and the facts have been too much sacrificed. And yet every reader must admit the scholarly interest and strong desire to get at the truth which appears throughout this whole study of Mr. Hobson's.

J. LAURENCE LAUGHLIN.